

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6887

BILL NUMBER: HB 1596

NOTE PREPARED: Jan 14, 2007

BILL AMENDED:

SUBJECT: Referendum for Property Tax Secured Debt.

FIRST AUTHOR: Rep. Espich

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill requires lease rentals or bond issues for local capital projects that will cost more than the lesser of: (1) 2% of a political subdivision's total gross certified assessed value; or (2) \$50,000,000; to be approved at a local referendum if the preliminary determination to enter into the lease or issue bonds is made after June 30, 2007. The bill provides that the petition and remonstrance process applies if the preliminary determination to enter into the lease or issue bonds is made before July 1, 2007. The bill makes conforming amendments.

Effective Date: July 1, 2007.

Explanation of State Expenditures:

Explanation of State Revenues: *Penalty Provision:* Persons under contract with a school corporation or an attorney, architect, construction manager, or financial advisor providing professional services on behalf of a controlled project that financially promotes a position on a controlled project local public question would commit a Class A infraction. The maximum judgment for a Class A infraction is \$10,000, which would be deposited in the state General Fund. However, any additional revenue is likely to be small.

Explanation of Local Expenditures: Current law provides that a petition and remonstrance process may be applied for in regards to a political subdivision imposing property taxes to pay debt service or lease rentals. After June 30, 2007, the bill would require that a political subdivision would not be able to impose property taxes to pay debt service or lease rentals for a controlled project at a cost of more than the lesser of 2% of the political subdivision's AV or \$50 M unless approved in an election by a local public question.

For a controlled project that falls under the above parameters, the bill would require a public question to be placed on the ballot of the next primary or general election. Adding the public question to a primary or general election ballot should not increase local election expenditures.

Requiring approval by public question could potentially lead to a reduction in the number of approved controlled projects. If debt service payments decrease due to fewer controlled projects being approved, then less property tax revenue would be required to pay the debt service.

Controlled Projects & Political Subdivision AVs- Under the bill, a political subdivision would have to have an AV of \$100 M to equal a \$2 M project cost or equal to the cost threshold under current law ($\$100\text{ M} * 2\% = \2 M). If a political subdivision had an AV over \$100 M, then the bill would effectively raise the threshold on the cost of a controlled project that would have to be approved by referendum under the requirements of the bill. If the subdivision had an AV of less than \$100 M, then the bill would lower the threshold that would require approval by referendum below the current threshold of \$2 M.

For example, 2% of a political subdivision's AV of \$2.5 B would be \$50 M. Therefore, political subdivisions with AVs exceeding \$2.5 B would not have to invoke a remonstrance on a project unless the cost were \$50 M or more. There are several political subdivisions within Indiana with AVs exceeding \$2.5 B in 2006. The larger political subdivisions include the following cities and towns: Indianapolis, Fort Wayne, Evansville, Lafayette, South Bend, Bloomington, Carmel, Fishers and the following counties: Marion, Allen, St. Joseph, Lake, Elkhart, Hamilton, Monroe, and several others.

Background Information: School construction makes up the majority of controlled projects. \$1.3 B in total school construction was approved by the Department of Local Government Finance in CY 2005. School construction debt required more than \$777 M in property tax revenue in CY 2005.

The Department of Local Government Finance will apply construction cost thresholds based on a national average school construction cost per square foot in 2006.

Explanation of Local Revenues: *Penalty Provision:* If additional court actions are filed and a judgment is entered, local governments would receive revenue from court fees. However, any additional revenue is likely to be small.

State Agencies Affected:

Local Agencies Affected: Trial courts; Local law enforcement agencies; Local civil taxing units using property tax revenue to fund certain debt services or lease rentals.

Information Sources: *2005 Indiana School Construction Annual Report*, Department of Local Government Finance (August 2006 report date); LOGODABA.

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